

Blue Shield of California 2010 Proposals

September 16, 2008
Health Benefits Committee Meeting

Blue Shield of California

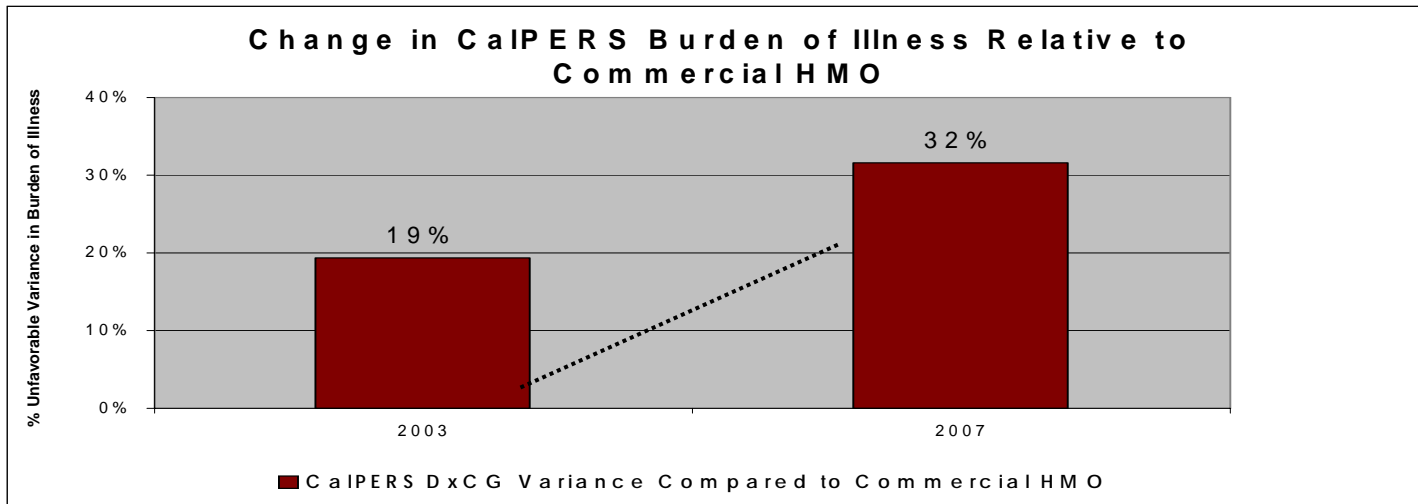
summary

- We recommend that CalPERS consider the following health benefit program additions and changes for 2010
 - aggressively pursue additional wellness program pilots branded under CalPERS or Blue Shield or both
 - convert Blue Shield's Medicare eligible product offering to an MA-PD program in as many geographic areas as feasible (like Kaiser's members)
 - introduce new pharmacy mail order incentive program
- We will be working with staff to provide you detailed analysis of the member, financial, and other program implications of making these additions and changes in future meetings
- The following pages give a brief summary as to why we believe these changes should be considered
- We would like to know if you have any specific questions you would like to see addressed in this process
- We continue to look at other potential 2010 initiatives and thus may bring forward additional proposals for consideration

CalPERS Wellness Initiative

member health status impacts cost

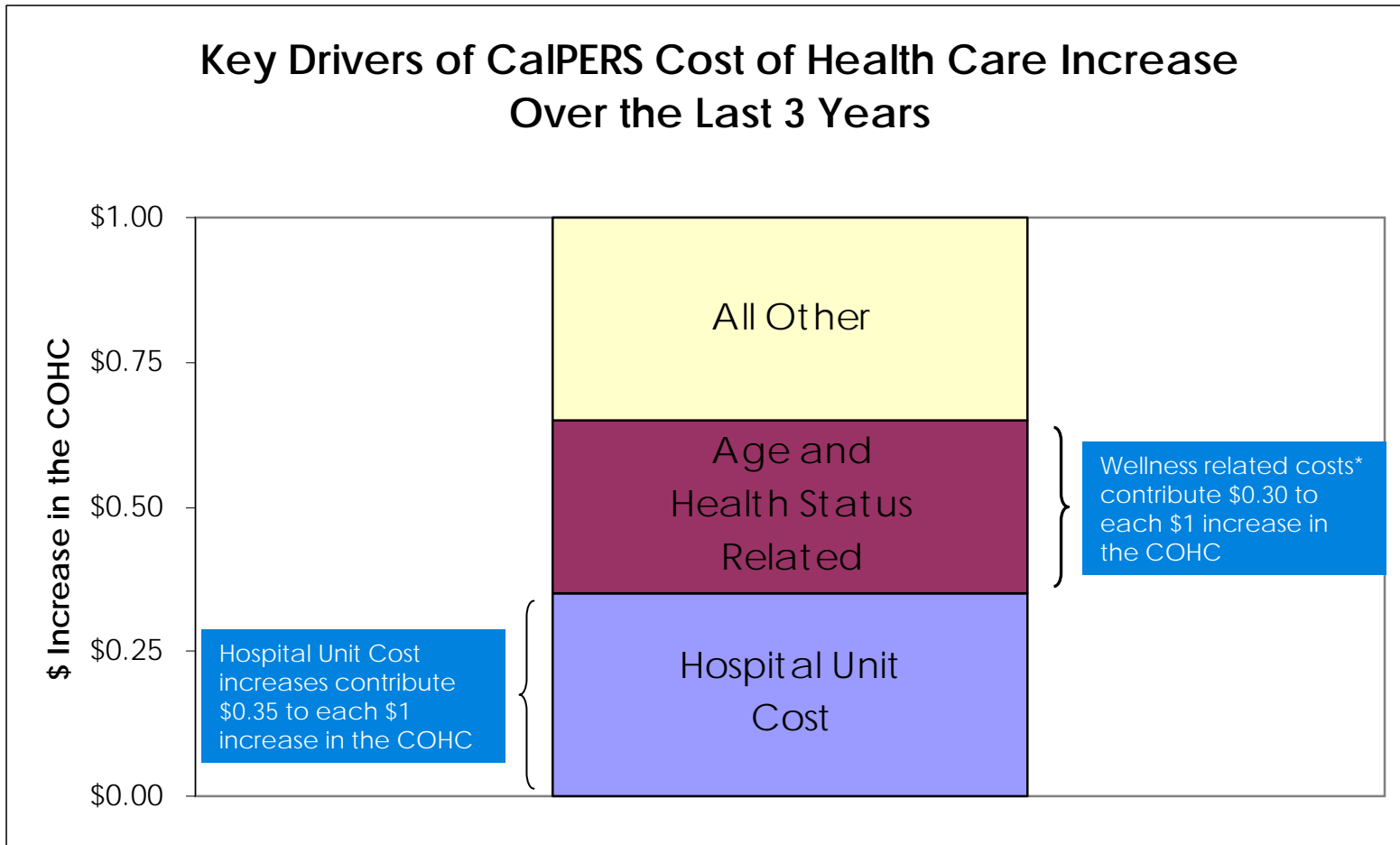
The unfavorable disparity in CalPERS' health status compared to Blue Shield's commercial HMO almost doubled during the period of 2003 - 2007 contributing as much as 2% to the 2008 CalPERS premium



A significant variance in health status exists when comparing CalPERS to Blue Shield's Commercial HMO.

Note: The DxCG measurement of illness burden does include a component of demographics (age)

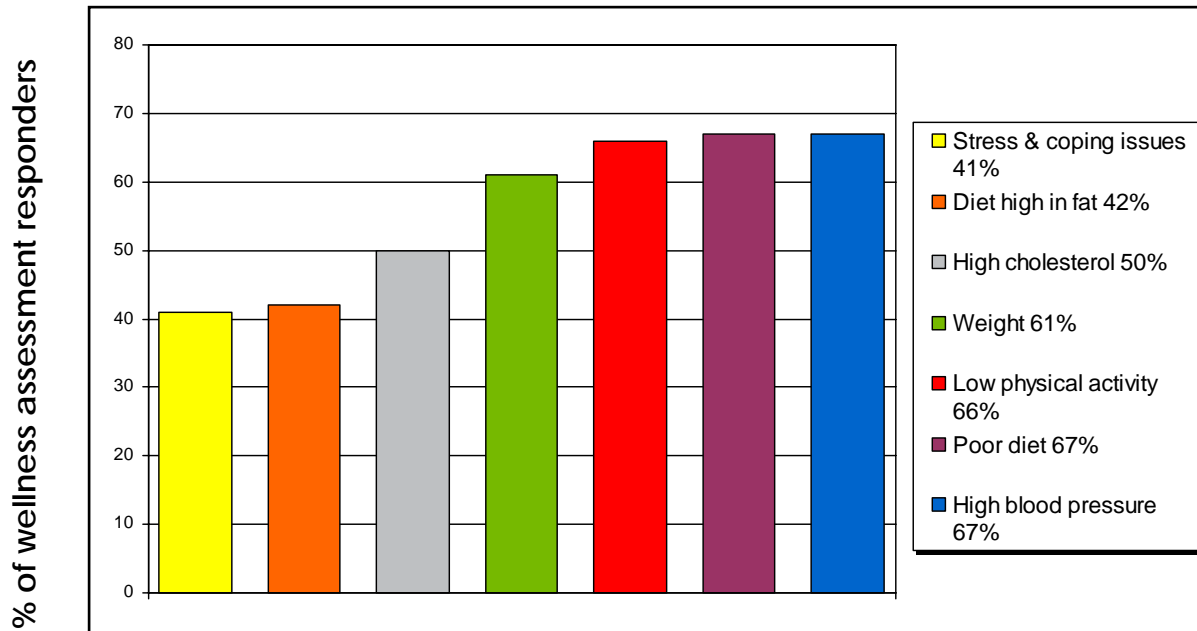
inertial path



* A population with a higher burden of illness could also result in higher unit cost for the same services. This would occur most notably in our hospital contracts with first dollar stop loss contracts, where the higher acuity patient would be more likely to trigger the stop loss provision.

risk factors within the CalPERS member population

A significant proportion of the 21,000+ CalPERS members that completed a Blue Shield wellness assessment in 2007 were identified as being at moderate or high risk for a number of key lifestyle risk factors.



Almost all of these risk factors can be addressed with lifestyle changes

2007 Wellness Assessment Risk Factors

July 2008 YTD 23,591 wellness assessments have already been completed.

keys to success with changing behavior to healthier lifestyles

- Programs need to be **customized** and relevant to the specific population
- Employers need to be highly **engaged**
- A strong capability to measure, **test, learn, and adapt** is a necessary condition of success

our proposal is to help CalPERS accelerate the wellness pace now

- Start now designing and developing pilots for 1/1/2010
- CalPERS will choose
 - who will participate in design of programs
 - whether and when to adopt expanded wellness programs
 - **how to brand the program, e.g., CalPERS-branded or Blue Shield branded**
 - **who will manage the program and at what cost, e.g., CalPERS staff, Blue Shield, or other non-health plan third party chosen by CalPERS**
- CalPERS and Blue Shield will structure the program to operate under any long-term structure being considered for delivery of the CalPERS health benefits program:
 - current multi-plan arrangement
 - single administrator approach
 - other

... and focus on the following areas for expansion

- Blue Shield's ongoing research indicates that the following components could potentially be included in this initiative:
 - pilot worksite wellness centers
 - on-site biometric screening
 - individualized health coaching
 - increased physician engagement in wellness programs
 - other programs identified through initiative development process
- Engage a qualified, independent third party to assist in upfront design, measure results, help us learn what works for the CalPERS population, and inform ongoing program improvements

conclusion

- Address underlying population health issues that drive health care costs
- Create a culture of wellness and change employee behavior over time
- Allow focused study of issues and development of customized interventions for the CalPERS population
- Continue CalPERS role as a change agent in California's healthcare delivery system

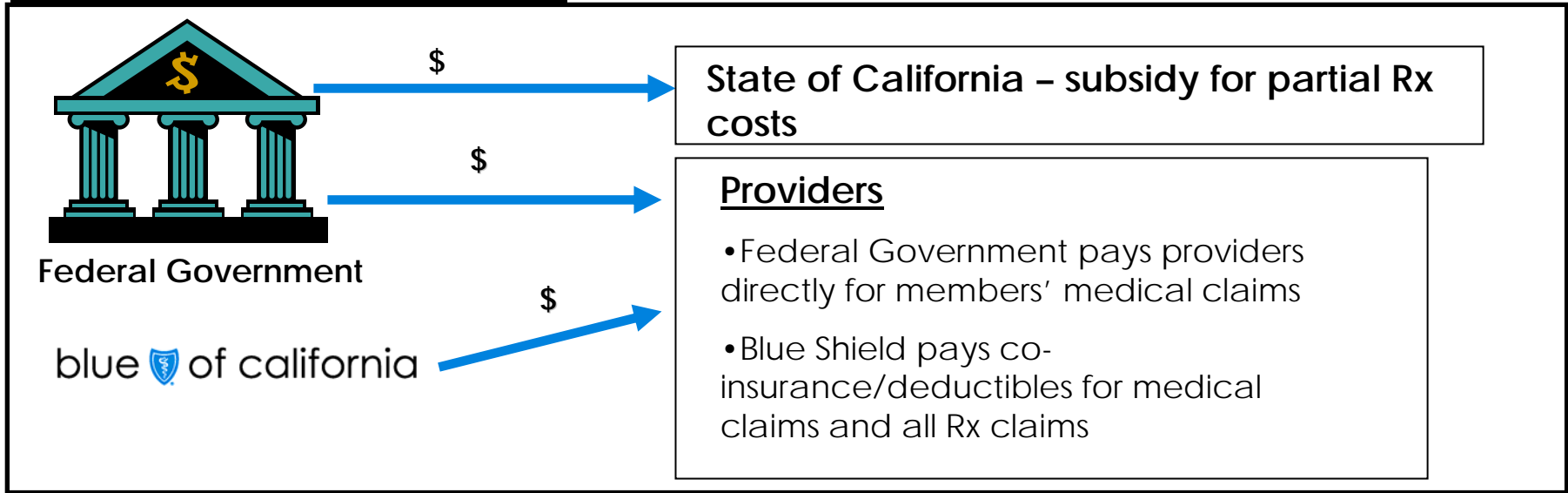
next steps

- Obtain feedback from CalPERS Board and staff
- Convene member representatives, state and local public agencies, and other constituents to obtain input on proposed initiative and identify other potential initiative components
- Use feedback to inform the final scope and design of the initiative
- Return to CalPERS Board with detailed proposal for review and action

Group Medicare Advantage/Part D Product

Group Medicare Advantage/Part D Offers Savings and Simplification

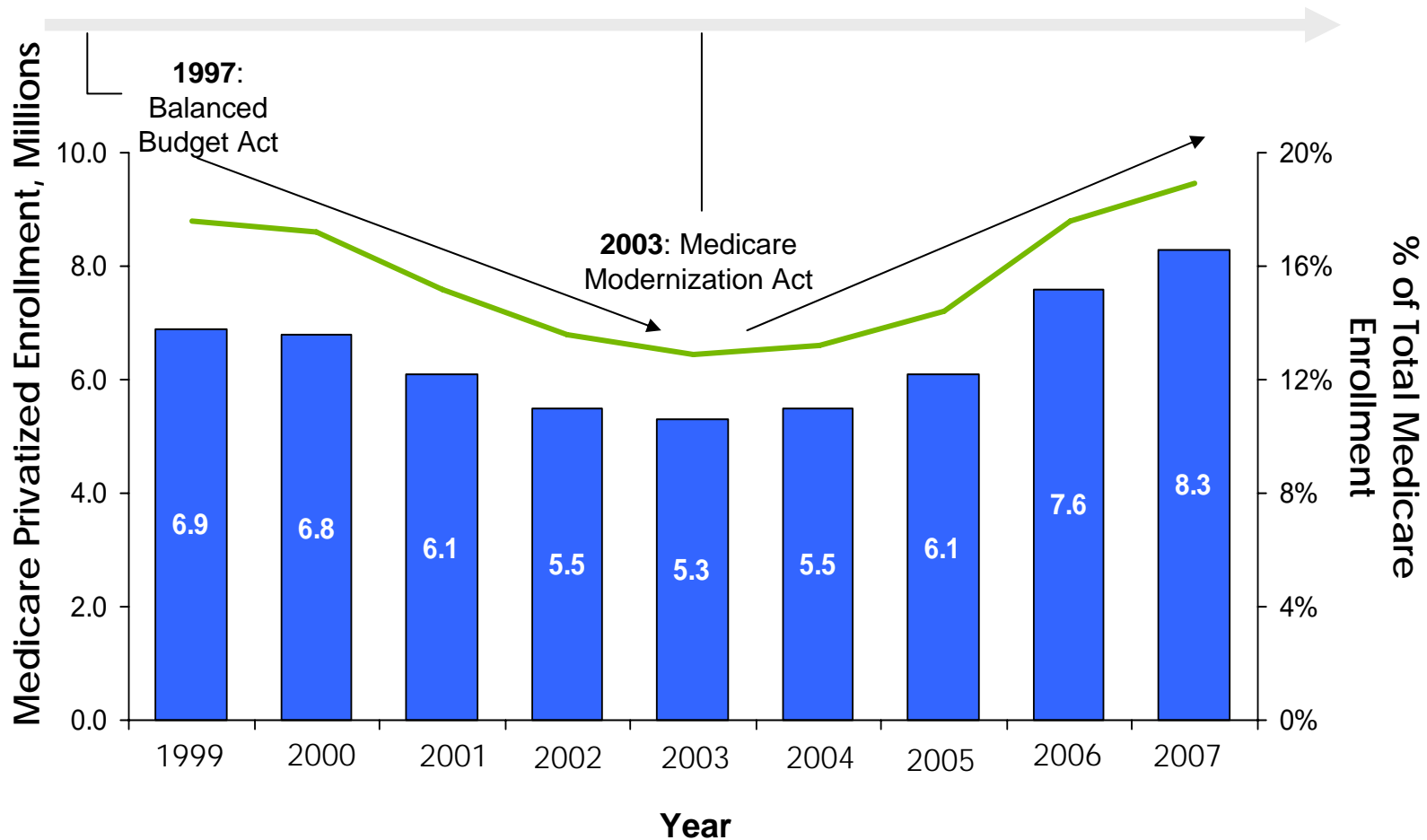
Supplement to Medicare



Group Medicare Advantage/Part D



Medicare enrollment in private plans



Source: Kaiser Family Foundation; CMS

Potential benefits to CalPERS of a GMA-PD product

Under a GMA-PD product, CalPERS members would benefit from:

- having care closely coordinated by their primary care physician
- receiving enhanced pharmacy benefit management services
- not having to file Medicare claims forms

According to our 2009 analysis, moving to a GMA-PD product would have produced >\$6 million of savings for CalPERS

- 2009 proposal focused on Southern CA
- 2010 review would expand focus to include Northern CA

Next Steps

Blue Shield will develop and present a comprehensive proposal to introduce a GMA-PD plan for CalPERS members effective January 1, 2010. The components of this proposal will include detailed analysis of the following:

- Provider Networks
- Member Disruption Analysis
- Benefit Structure
- Savings
- Member Communications Plan

We are seeking CalPERS' initial input to inform the design and scope of a final detailed proposal that would be presented at a future HBC for review and possible action.

Proposal for Pharmacy Mail Order Service Incentive Program

proposal objective and overview

objective:

- provide a pharmacy mail order service incentive option that is equivalent to the mail service incentive model offered for the PERS Select, PERSCare and PERS Choice PPO plans effective January 1, 2010

benefit overview:

- drive increased utilization of the lower cost mail order service program for CalPERS members on chronic maintenance medications such as lisinopril and atenolol for high blood pressure; and simvastatin and lipitor for high cholesterol
- provide savings to members through conversion of chronic maintenance medications to mail service

impact:

approximately **28% of all CalPERS Blue Shield members are on chronic maintenance medications** and could be affected by this incentive program

current benefit overview

current benefits between retail and mail			
maintenance medication	retail pharmacy up to 30-day supply (one year – 12 fills)	mail service up to 90-day supply (one year – 4 fills)	annual member cost savings at mail service
generic	\$5 x 12 fills = total copayments= \$60	\$10 x 4 fills = \$40	total savings = \$20
preferred brand	\$15 x 12 fills = total copayments= \$180	\$25 x 4 fills = \$100	total savings = \$80
non-preferred brand	\$45 x 12 fills = total copayments= \$540	\$75 x 4 fills = \$300	total savings = \$240
non-preferred brand with a copay waiver	\$30 x 12 fills = total copayments= \$360	\$45 x 4 fills = \$180	total savings = \$180

proposed mail service incentive overview

proposed mail service incentive for maintenance medication			
maintenance medication	retail pharmacy up to 30-day supply* (one year – 12 fills)	mail service up to 90-day supply (one year – 4 fills)	annual member cost savings at mail service
generic	$\$5 \times 2 \text{ fills} = \$ 10$ $\text{\textcolor{red}{\$10}} \times 10 \text{ fills} = \100 total copayments= \$110	$\$10 \times 4 \text{ fills} = \40	total savings = \$70
preferred brand	$\$15 \times 2 \text{ fills} = \$ 30$ $\text{\textcolor{red}{\$25}} \times 10 \text{ fills} = \250 total copayments= \$280	$\$25 \times 4 \text{ fills} = \100	total savings = \$180
non-preferred brand	$\$45 \times 2 \text{ fills} = \$ 90$ $\text{\textcolor{red}{\$75}} \times 10 \text{ fills} = \750 total copayments= \$840	$\$75 \times 4 \text{ fills} = \300	total savings = \$540
non-preferred brand with a copay waiver	$\$30 \times 2 \text{ fills} = \$ 60$ $\text{\textcolor{red}{\$45}} \times 10 \text{ fills} = \450 total copayments= \$510	$\$45 \times 4 \text{ fills} = \180	total savings = \$330
$\text{\textcolor{red}{* note: after the second fill of maintenance medication at the retail pharmacy, member's copayment will increase to the mail service copayment level.}}$			

opportunity analysis

- approximately **28% of all CalPERS members are on chronic maintenance medications** and could be affected by this incentive program
- projected annual savings for CalPERS would be up to \$3.9M
- on average, **each utilizing member can save \$200 per year** in converting maintenance medications to mail service
- on average, **each utilizing member may spend \$393 more per year** if maintenance medications are not converted to mail service